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Mexico

TOMATOES AND PRODUCTS ANNUAL

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Report Highlights:

Tomato production in Mexico for MY 2009/10 (Oct/Sep) is forecast to reach 2.27 million metric tons (MMT). MY 2008/09 production estimate is forecast at 2.23 MMT due to unfavorable weather conditions during the winter growing season. As a result, exports for MY 2008/09 are estimated at slightly lower levels compared to MY 2007/08. Since Mexican greenhouse tomato production has started to become an important factor in terms of total tomato production, the MY 2008/09 area dedicated to greenhouse tomato production could exceed 3,200 hectares and will continue to increase. Meanwhile, the tomato salmonella scare that took place in early 2008 has subsided and both sides are working together on food safety issues so that trade is not harmed if other problems arise.

Executive Summary:

Tomato production in Mexico for MY 2009/10 (Oct/Sep) is forecast to reach 2.27 million metric tons (MMT), assuming normal weather conditions. MY 2008/09 production estimates are

forecast at 2.23 MMT as unfavorable weather conditions affected the winter output. Therefore, exports for MY 2008/09 are estimated at slightly lower levels compared to MY 2007/08.

International prices for MY 2008/09 were lower than expected due to a market surplus. Over the past several years, Mexican greenhouse tomato production has started to become an important factor in terms of total tomato production. According to sources, MY 2008/09 area dedicated to greenhouse tomato production could exceed 3,200 hectares.

The Tomato Suspension Agreement between Mexico and the United States, originally signed on December 4, 2002, and extended for another five years in January 2008, binds all tomato exporters to an agreed upon reference price. The reference price for exporting fresh tomatoes for the summer season (July 1 to October 22) is 17.2 cents per pound, and the reference price for the winter season (October 23 to June 30) is 21.7 cents per pound. Fresh tomato exports to the United States as well as imports have a zero duty under NAFTA.

Commodities:

Production:

FAS/Mexico estimates production at 2.27 million metric tons (MMT) for MY 2009/10 (October/September) assuming favorable weather conditions and good international prices. Although, there is not yet an official forecast for overall tomato production for MY 2009/10, it is expected that good international market prices as well as a good exchange rate will allow producers to reach a higher level of production.

The overall tomato production for MY 2008/09 is expected to be lower compared to MY 2007/08 production due to unfavorable weather conditions during the winter production season. Low temperatures prevailed in the states of Michoacán and San Luis Potosi during the months of November/December, resulting in a slower development and maturing of the fruit, which in turn restricted volumes in the market. However, mild winter weather in Sinaloa and Florida resulted in a tomato glut in both markets by January/February, which in turn affected prices for the first three months of 2009. For example, in December 2008, Roma tomatoes were about \$12 to \$14 dollars/ 20 pound box, but by February 2009, prices had fallen to about \$5.85 to \$6.20 dollars per box.

Table 1. Mexico			
TOMATO PRODUCTION			
PRODUCTION (MT)	Estimate MY 2007/08	Estimate MY 2008/09	Forecast MY 2009/10
Total production	2,307,380	2,232,000	2,270,000
For fresh market	2,289,380	2,214,000	2,252,000
For processing	18,000	18,000	18,000
AREA PLANTED (Ha)			

TOTAL area planted	57,500	56,800	56,800
For fresh consumption	56,800	56,100	56,100
For processing	700	700	700
AREA HARVESTED			
TOTAL area harvested	55,869	55,100	55,200
For fresh consumption	55,269	54,500	54,600
For processing	600	600	600

This entire situation forced tomato growers, mainly in the state of Sinaloa to lower their farm inputs and maintenance of the tomato crop during the last part of the winter season, which reduced yields somewhat and the total output from that state. In addition, production was affected by the gradual switch of open field tomato production to green house production. Spring season growers, mainly in Baja California, have been dealing with pest problems in the open field crop. However, growers are also switching to greenhouse technology for export purposes.

Total tomato production data was revised downwards to 2.3 MMT for MY 2007/08 based on official data. Total planted area for tomatoes has a tendency to decrease from year-to-year because growers are experiencing expansion constraints as a result of higher production costs, which is largely a function of international exchange rates and limited water availability. Also, growers are trying to prevent overproduction problems. However, planted area is influenced by the previous year's international prices, which either encourages or discourages the next year's tomato plantings. Although technology also plays an important role in reducing planted area due to greenhouses and/or shade houses, yields typically increase with greenhouses while area planted decreases. For reference, out of the 15,000 hectares of area planted in Sinaloa, greenhouse production increased from about 1,000 hectares in MY 07/08 to about 1,300 hectares in MY 2008/09, whereas open-field Roma tomatoes dropped from 4,700 hectares in MY 2007/08 to approximately 3,900 hectares in MY 2008/09. Nevertheless, due to higher input costs, uncertain exchange rates, and low market prices, this growth trend might slow down.

Considering these factors, tomato plantings for fresh consumption for MY 2009/10 are forecast to remain at least at the same level as in MY 2008/09 at 56,800 hectares. MY 2008/09 estimates were revised down based on industry information, from 65,700 to 56,800 hectares. The planted area for MY 2007/08 also decreased from 65,700 to 57,500 hectares based on official data.

Mexico produces greenhouse and shade house tomatoes in several states. According to industry sources, there are probably over 3,200 hectares of greenhouse plantings throughout Mexico devoted to tomato production. Greenhouse yields tend to vary

significantly among producers, variety, and state, and generally range from 150 MT/ha to 200 MT/ha if high and medium-level technology is used.

Each state has its own set of economic incentives and supports for establishing greenhouse operations, and several states run training seminars, trade missions, and set standard and certification programs. However, the federal government has developed a policy towards supporting the system of protected agriculture, at all government levels, as an alternative competitive and sustainable system. The government support project for 2009 has a budget of \$700 million pesos (US\$51.8 million), under a shared risk program, which is intended to develop a variety of products. The following internet address contains additional information about this program.

<http://www.amhpac.org/contenido/plan%20nacional%20de%20agricultura%20protegida%202009.pdf>

Although greenhouse operations are concentrated in Baja California, Jalisco, and Sinaloa, there are also some greenhouse operations in the states of Colima, Mexico, Hidalgo, Michoacán, Querétaro, San Luis Potosí, Sonora, and Zacatecas. Most of the production from greenhouses in the states of Baja California and Sinaloa is destined for export markets since prices in the international market tend to be significantly higher.

During the winter season (October - May), growers in Sinaloa are the main producers and exporters of fresh tomatoes. Other significant producers include Michoacán, Jalisco, and Baja California Sur. Growers in Sinaloa are anticipating that the use of improved and extended shelf varieties, drip irrigation, and plastic mulch will help maintain their high yield levels. During the summer season (May - October), growers in Baja California are the main producers and exporters of fresh tomatoes. The states of Michoacán, Jalisco, and Morelos follow Baja California's production. However, producers in both Sinaloa and Baja California are more technologically advanced than other producing states. As a result, U.S. California tomatoes face direct competition from Baja California tomatoes. Growers in Jalisco produce tomatoes for the summer cycle, and usually export in October, November, and December after Baja California. The state of Jalisco has also started to increase their open field and greenhouse planted area. This increase is largely attributable to their success in exporting to the United States.

Planting and harvesting for processing tomatoes is largely a function of fresh domestic market prices and international tomato paste prices. Area that was previously devoted to planting tomatoes for the processing industry was shifted to the fresh market, as demand for processing tomatoes has declined in the face of high international fresh market prices.

Area planted for MY 2008/09 and 2009/10 for processed tomatoes is estimated at 700 hectares. Yields for this type of tomato range from 30 MT/ha to 40 MT/ha given normal

weather conditions. If the industry has a need for additional tomatoes to process, it is bought in from the open market.

Table 2. Mexico				
Monthly Exchange Rate Averages 2006-				
2009	MX Pesos per U.S. \$1.00			
	2006	2007	2008	2009
January	10.56	10.94	10.91	13.15
February	10.48	10.99	10.77	14.55
March	10.73	11.12	10.74	14.71
April	11.03	10.98	10.52	13.41
May	11.08	10.82	10.44	13.18 ^①
June	11.39	10.83	10.33	n/a
July	11.00	10.80	10.24	n/a
August	10.87	10.50	10.10	n/a
September	10.89	10.92	10.61	n/a
October	10.90	10.92	12.56	n/a
November	10.90	10.87	12.31	n/a
December	10.85	10.84	13.40	n/a
Annual Avg.	10.89	10.92	11.14	13.80
^① As of first week of May.				
Source: Mexican Federal Register				
Note: Monthly rates are averages of daily exchange rates from the Banco de Mexico.				

Tomato production costs remain high across the country. According to growers, imported agrochemicals, seeds, and fertilizers are the most costly inputs. Fresh tomato production costs for open field tomatoes for MY 2008/09 ranged from \$50,000 to \$76,000 pesos/ha (U.S. \$3,773.50 to \$5,735.84/ha) in Sinaloa and Baja California, which produce for both the domestic and export market. Meanwhile, greenhouse and shade house operations cost as much as U.S. \$22,000/ha. However, the cost of production depends largely on the value of the peso against the dollar, as many inputs are imported from the United States.

Lack of credit is also a constraining factor for growers, since Mexican banks do not provide loans for tomato production. In a few instances, producers with export contracts can receive some operating capital from contracting companies in the United States. Both producers and officials within the Mexican Secretariat of Agriculture (SAGARPA) are extremely cognizant of the importance of meeting quality standards for fruits and vegetables and have implemented programs to comply with U.S. food safety requirements.

MY 2008/09 average fresh tomato yields are forecast at 40.5 MT/ha. Individual yields vary depending on production conditions and inputs. Baja California and Sinaloa growers generally achieve the highest fresh tomato yields, about 45 MT/ha, due in part to their widespread pest and disease control programs. In other areas of Mexico, growers have

lower yields averaging 20 to 30 MT/ha. This is mostly attributable to a less intensive use of quality inputs and ineffective pest control programs. Yields for greenhouses are generally between 150 and 200 MT/ha for high and medium technology growers.

Consumption:

The final consumption figure will largely depend on tomato exports to the United States, since domestic consumption is basically a residual after exports. Tomato consumption for MY 2007/08 was about 1.3 MMT and consumption for MY 2008/09 is expected to be slightly lower compared to MY 2007/08, which is due to lower production. Tomato consumption is very price sensitive in Mexico, thus marginal changes in prices tend to lead to significant changes in demand. Traders indicated that the tomato supply was high from January to March 2009, and prices decreased while demand from the international market was not strong. If yields are good, consumption for MY 2009/10 could be higher compared to MY 2008/09.

Although greenhouse production is limited, and tends to be priced higher, the market now has the option of meeting some of the domestic demand with greenhouse tomatoes, but only after the export market has first been supplied.

From March to May, local tomato prices tend to rise because of increased exports from the state of Sinaloa, which in turn reduces supply in the domestic market. Exports also increase from June to August, as this is Baja California's international market window. By the end of November and December, tomato prices usually rise again, due to an increased rate of exports from the states of Jalisco and Sinaloa. The tomato paste industry always buys tomatoes from the fresh market in addition to buying contracted tomatoes for processing. However, price competition in the fresh market has developed into a real problem for the processing industry. Over the past several years, relatively high fresh tomato prices have diverted product away from the processed market. Thus, there has been very little industry demand for tomatoes destined to paste production, as it is more economically feasible to import tomato paste rather than produce it domestically.

Trade:

Tomato exports for MY 2008/09 are expected to be slightly lower compared to the MY 2007/08 total exports of 1.1 MMT. According to producers, exports during the winter season were lower due to the glut in the international market that lowered prices. However, the exchange rate by the end of February helped exports despite the low prices.

According to Mexican trade data, Mexico exported nearly 1.1 MMT of tomatoes in MY 2007/08 (Oct/Sept), the vast majority of which were shipped to the United States. This quantity is very close to what Mexico exported in MY 2006/07 (1.05 MMT).

The MY 2007/08 summer tomato trade was affected by the salmonella scare in June 2008, with economic losses for producers in both countries. In June 2008, FDA stated that a salmonella outbreak in the United States appeared to be linked to consumption of certain types of raw tomatoes. FDA first linked the outbreak to tomatoes originating in Mexico and Florida, which affected Mexican exports almost immediately as well as product already in the U.S. market. In fact, the scare affected tomato trade in general at that time. The

investigation that FDA conducted took them to the state of Sinaloa to check tomato packing plants. Since FDA could not find a link to tomatoes they continued the investigation and finally stated that some Jalapeno and Serrano peppers grown in that state were the likely cause of the outbreak. The FDA lifted the alert for tomatoes on July 17, 2008. While this situation caused significant economic losses in Mexico, one positive aspect that arose is the agreements that were already in place between both governments on food safety were reinforced and greater levels of communication have been established.

The state of Sinaloa already has a program in place called "Sinaloa Safe Tomatoes", which is a government enforced program for tomato exporters. With this program, Sinaloa growers plan to set themselves apart from growers in other Mexican states in case food safety problems arise with Mexican products from outside Sinaloa. Greenhouse producers are being certified under the "Safe Quality Food" from the Food Marketing Institute (FMI), in Washington, D.C. More information on this issue can be found at:

<http://www.fda.gov/oc/opacom/hottopics/tomatoes.html>

<http://www.cdc.gov/mmwr/preview/mmwrhtml/mm5734a1.htm>

The following table represents the annual (Oct/Sept) marketing year average export price for some greenhouse and Roma tomatoes from different seasons.

Table 3. Mexico AVERAGE EXPORT TOMATO PRICE TO THE U.S. Dollars/Kilogram			
	MY 2006/07	MY 2007/08	MY 2008/09 (February 2009)
Greenhouse Tomato (3/15-7/15)	1.52	1.36	1.41
Greenhouse Tomato (11/15-2/28)	1.44	1.65	1.43
Roma Tomato (3/15-7/15)	0.68	0.88	0.67
Roma Tomato (11/15-2/28)	0.75	0.95	0.83
Source: Dept of Commerce, U.S. Census Bureau			

According to the U.S. Census Bureau, tomato exports for MY 2008/09 (February) show a marginal increase of 2.2 percent in volume over the same period in 2007/08, but it shows a decrease of 4.8 percent, in value, compared to same period in MY 2007/08. This is due mainly to the unstable exchange rate of the peso versus the dollar and the low international prices for the first three months of 2009. According to exporters, total exports for MY 2008/09 could be slightly lower and barely reach 1.0 MMT.

The average price per kilogram of tomatoes exported to the United States during MY 2006/07 was around U.S. \$1.00/ kg and for MY 2007/08 the price was around US \$1.16/

kg. As for MY 2008/09, until February 2009, the average price has been slightly lower at about US \$1.11/ kg. According to the U.S. Census Bureau, from the overall tomatoes imported from Mexico during MY 2006/07, 25.3 percent were greenhouse tomatoes and for MY 2007/08 the percentage increased to 29 percent.

The Tomato Suspension Agreement between Mexico and the United States, signed on December 4, 2002, and extended for another five years in January 2008, binds all tomato exporters to an agreed upon reference price. The reference price for exporting fresh tomatoes for the summer season (July 1 to October 22) is 17.2 cents per pound, and the reference price for the winter season (October 23 to June 30) is 21.69 cents per pound. According to growers, tomato prices for 2008/09 have been well above the reference prices. Fresh tomato exports to the United States as well as imports have a zero duty under NAFTA. The tomato tariff classification numbers are 0702.0001 and 0702.0099.

Fresh tomato imports from the United States represent a small portion of Mexico's fresh consumption and fluctuate depending on international prices and domestic availability. Imports for MY 2007/08 were down to 31,506 MT. However, MY 2008/09 tomato imports were trending upward (20,000 MT in March 2009, according to the U.S. Census Bureau) despite higher import prices and an unfavorable exchange rate. It seems that tomato supplies were short due to the tomato glut and late harvesting time. Most of the imported tomatoes are sold in the northern states of Nuevo Leon, Sonora, Baja California, and Chihuahua.

Marketing:

Fresh tomatoes destined for domestic consumption, including imported tomatoes, pass through various wholesale markets throughout Mexico and pass from there to the large supermarkets and retail stores. A few stores, including a major U.S. based retail chain, import directly without going through the wholesale market channels, but this is still somewhat rare since most retail operations do not have import expertise. In the past, promotional campaigns for U.S. tomatoes have focused on proper tomato handling (e.g., how to ripen green tomatoes, etc.), point of sale material, and in-store promotions. The promotional campaigns concentrate on importers in the northern border cities, where larger volumes of tomatoes tend to be purchased. Tomatoes for the export market are shipped directly from the producing areas to the U.S. border.

Production, Supply and Demand Data Statistics:

Table 4 -Mexico: WHOLESALE ROUND TOMATO PRICES

Wholesale Round Tomato Prices Mexico City Pesos/Kilogram			
MONTH	2008	2009	Change %
January	12.62	7.08	(43.89)
February	7.39	4.74	(35.85)

March	11.84	7.15	(39.61)
April	11.72	10.53	(10.15)
May	12.35	N/A	N/A
June	9.58	N/A	N/A
July	10.97	N/A	N/A
August	9.00	N/A	N/A
September	8.66	N/A	N/A
October	12.19	N/A	N/A
November	18.83	N/A	N/A
December	15.54	N/A	N/A

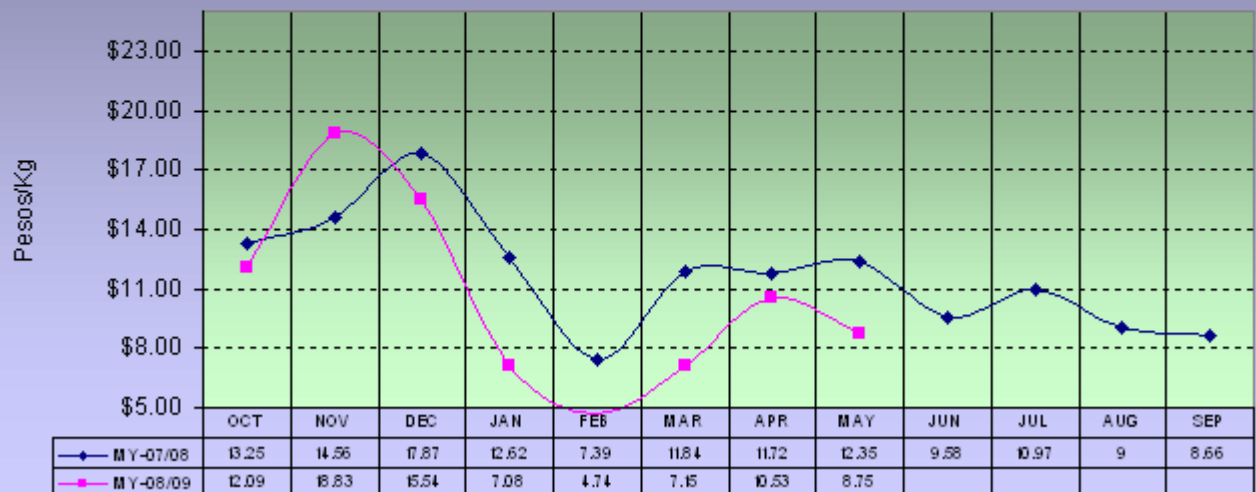
Table 5 -Mexico: ROMA TOMATO PRICES

Wholesale Roma Tomato Prices Mexico City Pesos/Kilogram			
Month	2008	2009	Change %
January	6.89	6.11	(11.32)
February	5.55	3.94	(29.00)
March	9.27	6.06	(34.62)
April	9.55	9.38	(1.78)
May	8.65	N/A	N/A
June	7.70	N/A	N/A
July	9.50	N/A	N/A
August	5.70	N/A	N/A
September	5.94	N/A	N/A
October	6.55	N/A	N/A
November	8.84	N/A	N/A
December	12.19	N/A	N/A

Source: Servicio Nacional de Informacion de Mercados
2008 Exchange Rate Avg.: U.S.\$1.00 = 11.14 pesos
April 22, 2009 Exchange Rate: U.S.\$1.00 = 13.17 pesos

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Round Tomato Prices Mexico City Wholesale



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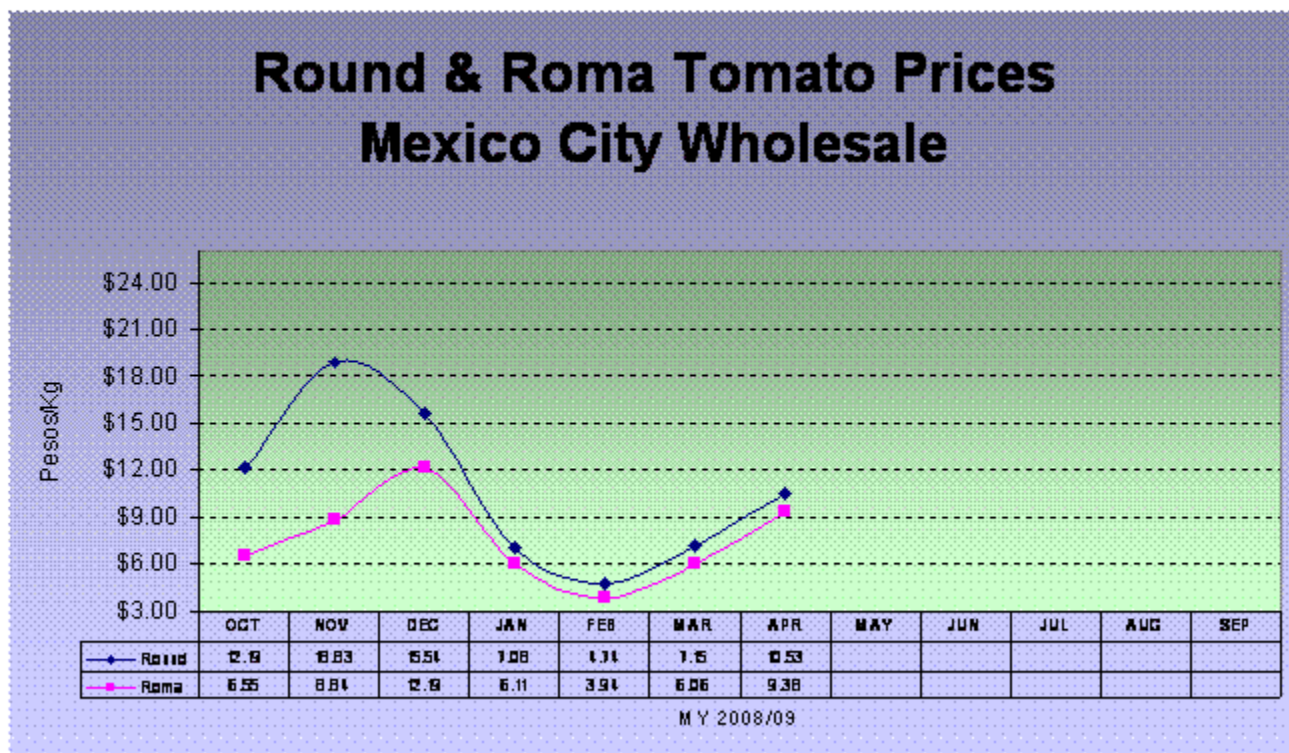


Table 6 -Mexico: TRADE MATRIXES

Tomatoes			UNITS: METRIC TONS		
Exports for MY 2007/08 (OCT-SEPT) to:			Imports for MY 2007/08 (OCT-SEPT) from:		
	Volume	Value		Volume	Value
U.S.	1,072,727	\$1,332,166	U.S.	31,507	\$41,378
OTHER			OTHER		
Canada	6,886				
Total of other	6,886		Total of other	0	
Others not listed	642		Others not listed	0	
GRAND TOTAL	1,080,255	\$1,332,166	GRAND TOTAL	31,507	\$41,378

Tomatoes			UNITS: METRIC TONS		
Exports for MY 2008/09 (OCT-SEPT) ** to:			Imports for MY 2008/09 (OCT-SEPT) from:		
	Volume	Value		Volume	Value
U.S.	340,796	\$385,544	U.S.	5,435	\$16,194
OTHER			OTHER		
CANADA	3,484		CHILE	0	
Total of other	3,484		Total of other	0	
Others not listed	330		Others not listed	0	

GRAND TOTAL	344,610	\$385,544	GRAND TOTAL	5,435	\$16,194
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*Value in U.S. Dollars ** Up to January 2009

SOURCE: Global Trade Information Services, Inc. World Trade Atlas, Mexico Edition, January